

**NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.**

## NO SURFACE USE PAID UP OIL AND GAS LEASE

THIS LEASE AGREEMENT (this "Lease") is made as of the 14<sup>th</sup> day of June, 2008, between Karen M. Hankins a single woman, whose address is 1806 Park Hill Dr, Arlington, TX 76012, as Lessor, and Dale Property Services, L.L.C., a Texas limited liability company, whose address is 2100 Ross Avenue, Suite 1870, LB-9, Dallas, Texas 75234, as Lessee.

1. **Leased Premises.** In consideration of a cash bonus paid upon execution of this Lease, and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, to wit:

0.259 acres of land, more or less, being all of Lot 4, Block 1, out of Enchanted Oaks Addition, an addition to the City of Arlington, Texas, with metes and bounds more particularly described in the plat thereof, as recorded in Volume/ Cabinet 388-53, Page/ Slide 52, of the Plat Records of Tarrant County, Texas;

(including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas. For purposes of this Lease, "oil and gas" means oil, gas and other liquid and gaseous hydrocarbons and their constituent elements produced through a well bore. "Oil" includes all condensate, distillate and other liquid and gaseous hydrocarbons produced through a well bore. "Gas" includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. Expressly excluded from this Lease are lignite, coal, sulfur and other like minerals. The leased premises shall include all strips and gores, streets, easements, highways and alleyways adjacent thereto. Lessor agrees to execute at Lessee's request any additional or supplemental instruments reasonably necessary for a more complete or accurate description of the leased premises. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres specified on Schedule I shall be deemed correct, whether actually more or less.

2. **Term.** This Lease is a "paid up" lease requiring no rentals. Subject to the other provisions contained herein, this Lease shall be for a term of thirty-six (36) months from the date hereof (the "primary term"), and for as long thereafter as oil or gas or other substances covered hereby are produced in commercial paying quantities from the leased premises or from lands pooled therewith, or this Lease is otherwise maintained in effect pursuant to the provisions hereof.

It is hereby understood by and between Lessor and Lessee that any time during the final year of the primary term, Lessee may, at Lessee's option extend the primary term for an additional term of two (2) years by paying to Lessor the amount equal to the original bonus amount.

3. **Royalty.** Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) for oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be twenty five percent (25%) of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, less a proportionate part of ad valorem taxes and production, severance or other excise taxes, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; and (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be twenty-five percent (25%) of the proceeds realized by Lessee from the sale thereof, computed at the point of sale, less a proportionate part of ad valorem taxes and production, severance or other excise taxes, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder. If at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut-in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this Lease. A well that has been drilled but not fraced shall be deemed incapable of producing in paying quantities. If for a period of ninety (90) consecutive days such well or wells are shut-in or production therefrom is not being sold by Lessee, then Lessee shall pay shut-in royalty of twenty-five dollars (\$25.00) per acre then covered by this Lease on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut-in or production therefrom is not being sold by Lessee; provided, however, that if this Lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. This Lease may not be maintained in force and effect after the end of its primary term solely by the payment of shut-in royalties for a longer period of time than one consecutive (1) year. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

It is agreed between the Lessor and Lessee that, notwithstanding any language herein to the contrary, all oil, gas or other proceeds accruing to the credit or benefit of Lessor under this Lease or by state law shall be without deduction for the cost of Producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and marketing the oil, gas and other products to be produced under the Lease; however, in the event Lessee determines in good faith that it can obtain a higher price at a market located outside of the local market and Lessee incurs transportation costs charged by an unaffiliated interstate or intrastate gas pipeline in order to enhance the value of the oil, gas or other

products, Lessor's pro rata share of such costs may be deducted from Lessor's share of production. In no event shall Lessor ever receive a price that is less than the price to be received by Lessee. Lessee agrees to provide and make available to Lessor upon written request Lessee's records maintained or utilized in connection with any efforts to enhance the value of oil, gas or other products to be produced pursuant to and in connection with this Lease together with any costs paid or proceeds received by Lessee hereunder.

4. Payments. All shut-in or other royalty payments under this Lease shall be paid or tendered to Lessor at the above address, or at such address or to Lessor's credit at such depository institution as Lessor may provide written notice of from time to time. All payments or tenders may be made in currency or by check. Lessee shall pay all royalties on or before the sixty (60) days succeeding the month of production; provided however, royalties on the first month's production from any well shall not be due and payable until one hundred twenty (120) days from the date of first production. If Lessee shall fail to pay royalties as and when required, Lessee shall pay Lessor interest at the rate of one and a half percent (1.5%) per month (but in no event at a rate greater than the highest rate allowed by law) on the unpaid royalties from the date such royalties were due to be paid until such royalties are actually paid in full. Initial bonus monies shall be paid to Lessor by currency or check by Lessee upon Lessee's receipt of Lessor's executed lease.

5. Continuous Drilling Operations. If Lessee drills a well which is incapable of producing in paying quantities (a "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Section 6 or the action of any governmental authority, then in the event this Lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within ninety (90) days after completion of operations on such dry hole or within ninety (90) days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this Lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this Lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than ninety (90) consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances (a) to develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) to protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

6. Pooling. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interests therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests; provided, however, that the entire leased premises covered by this Lease shall be included in any unit created pursuant to the pooling authority granted herein. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed eighty (80) acres plus a maximum acreage tolerance of ten percent (10%), and for a gas well or a horizontal completion shall not exceed six hundred forty (640) acres plus a maximum acreage tolerance of ten percent (10%); provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and "horizontal completion" means a well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, within ninety (90) days of first production, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling which may be retroactive to first production. In the event Lessor's acreage is included in a well, all of Lessor's acreage shall be included. Production, drilling or reworking operations anywhere on a unit which includes the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this Lease and included in the unit bears to the total gross acreage in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. If the leased premises are included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

7. Partial Interests. If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties and shut-in royalties payable hereunder for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises.

8. **Assignment.** The interest of either Lessor or Lessee may be assigned, devised or otherwise transferred in whole or in part by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. In the event of an assignment of any portion of Lessee's interest hereunder, with the exception of assignments being made to officers, directors, and/or subsidiaries of Lessee, Lessee shall deliver to Lessor via email at [info@nwarlington.com](mailto:info@nwarlington.com) a recordable document of the interest so assigned. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until sixty days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate at the address designated above. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons, either jointly, or separately in proportion to the interests which each owns.

9. **Release and Vertical Pugh Clause.** Lessee may, at any time and from time to time, deliver to Lessor in recordable form or file of record a written release of this Lease as to a full or undivided interest in all or any portion of the area covered by this Lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder. In any event, upon termination of this Lease, Lessee, its successors or assigns, shall deliver to Lessor a recordable release as to such portion or portions of this Lease which have terminated under the terms of this Lease. At the end of the primary term, this Lease shall expire as to all acreage except for the number of acres hereinafter specified around each well then producing oil and/or gas in paying quantities ("Retained Tract") unless operations are being conducted in accordance with the Cessation of Production provision herein. The Retained Tract for a vertical well shall maintain this Lease as to not more than Eighty (80) acres. The Retained Tract for a horizontal well shall equal no more than Six Hundred Forty (640) acres. The retained acreage for a vertical well shall be in the form of a square as nearly as practically possible and the retained acreage for a horizontal well shall be in the form of a rectangle with the center line of the long dimension of the rectangle following the horizontal drain hole as nearly as practically possible. As used in this Lease, the term "horizontal well" will mean one that meets the definition of a "horizontal drainhole well" under statewide Rule 86 of the Texas Railroad Commission and a "vertical well" is a well that is not a horizontal well. Upon the expiration of the primary term of this Lease, upon the expiration of any extension or renewal of the primary term, or after cessation of operations as provided herein, whichever occurs last, this Lease shall further terminate as to all rights lying below one hundred feet (100') below the stratigraphic equivalent of the base of the deepest formation producing or capable of producing in any well drilled on the leased premises or on lands pooled therewith, whichever is the deepest; provided, however, if Lessee is then engaged in operations on the leased premises or on lands pooled therewith, this Lease shall remain in full force and effect as to all depths so long as no more than ninety (90) days elapse between operations.

10. **Waiver of Surface Use.** Notwithstanding anything to the contrary in this Lease, Lessee shall not enter upon the surface of, cross over, place any structure or building upon or conduct any operations (including but not limited to except for geophysical/seismic operations as stated below) on the leased premises. Further, no well(s) used for directional drilling under the leased premises or lands pooled therewith shall be within six hundred feet (600') from any house or commercial building now on the leased premises without Lessor's prior written consent, and Lessee shall pay for any damages caused by its operations to buildings and other improvements now on the leased premises accordingly. Lessee shall only develop the leased premises by pooling, as provided herein, or by directional or horizontal drilling commenced from a surface location on other lands. Lessee shall make all reasonable efforts not to use residential or neighborhood streets or thoroughfares in developing the leased premises, any lands pooled therewith or otherwise.

11. **Noise.** Noise levels associated with Lessee's operations related to the drilling, completion and reworking of wells shall be kept to a reasonable minimum, taking into consideration reasonably available equipment and technology in the oil and gas industry, the level and nature of development and surface use elsewhere in the vicinity of Lessee's drill sites and the fact Lessee's operations are being conducted in or near an urban residential area. If Lessee utilizes any non-electric-powered equipment in its operations, including but not limited to compression equipment, Lessee shall take reasonable steps to muffle the sound therefrom by installing a noise suppression muffler or like equipment.

12. **Regulatory Requirements and Force Majeure.** Lessee's obligations under this Lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including environmental regulations, setback requirements, restrictions on the drilling and production of wells, and the price of oil, gas and other substances covered hereby. To the extent any such laws, rules, regulations or orders are less restrictive than the terms of this Lease, this Lease shall control. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this Lease shall not terminate because of such prevention or delay, and at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any express or implied covenants of this Lease when drilling, production or other operations are so prevented, delayed or interrupted. Lessee shall take all reasonable actions to remove or end any cause of Force Majeure for a period of more than one (1) consecutive year or three (3) years of cumulative time. No obligation of Lessee to pay money that has accrued and was due before the Force Majeure event occurred under this lease will be excused or delayed by reason of such Force Majeure event.

13. **Indemnity.** Lessee hereby releases and discharges Lessor and the owner of the surface estate, along with their officers, employees, partners, agents, contractors, subcontractors, guests and invitees, and their respective heirs, successors and assigns (collectively the "Lessor Parties"), of and from all and any actions and causes of

action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees and agents arising out of, incidental to or resulting from, the operations of or for Lessee on or under the leased premises or at the drill site or operations site or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Lease, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the Lessor Parties against any and all claims, liabilities, losses, damages, actions, property damage, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under claims of contract, statute or strict liability, including reasonable attorney fees and other legal expenses, including those related to environmental hazards on or under the leased premises or at the drill site or operations site or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities in, on or under the leased premises or at the drill site or operations site; those arising from Lessee's use of the surface or subsurface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Lease or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees and their respective successors and assigns. Each assignee of this Lease, or of an interest herein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the Lessor Parties in the same manner provided above in connection with the activities of Lessee, its officers, employees and agents as described above.

14. Notices. All notices required or contemplated by this Lease shall be directed to the party being notified at the address identified above, unless notice of another address has been provided in writing. All such notices shall be made by registered or certified mail, return receipt requested, unless another means of delivery is expressly stated.

15. No Warranty of Title. Lessor makes no warranty of any kind with respect to title to the surface or mineral estate in the leased premises or any portion of or interest therein, except title by, through and under Lessor. All other warranties that might arise by common law or by statute, including but not limited to Section 5.023 of the Texas Property Code (or its successor), are excluded. By acceptance of this Lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the leased premises. Lessee assumes all risk of title failures, except failure of title by, through and under Lessor.

16. Subordination. Notwithstanding anything contained herein to the contrary, neither Lessee nor Lessee's assigns shall ever require a subordination, partial release of lien, release of lien, consent or other documentation from any lender of Lessor that has a lien on said land as a condition to Lessor receiving any subsequent royalty payment, unless the wellbore penetrates the leased premises, in which case Lessee shall notify Lessor. However, Lessor will cooperate with any reasonable effort of Lessee to obtain same from Lessor's lender on behalf of Lessor.

17. Top Leasing Permitted. There shall be no prohibition or limitation on top leasing.

18. Venue and Legal Fees. Venue for any dispute arising under this Lease shall lie in Tarrant County, Texas, where all obligations under this Lease are performable.

19. Miscellaneous. This Lease is entered into in the State of Texas and shall be construed, interpreted and enforced in accordance with the laws of the State of Texas without reference to choice-of-law rules. Should any of the provisions herein be determined to be invalid by a court of competent jurisdiction, it is agreed that this shall not affect the enforceability of any other provision herein and that the parties shall attempt in good faith to renegotiate that provision so determined to be invalid to effectuate the purpose of and to conform to the law regarding such provision. The section titles appearing in this Lease are for convenience only and shall not by themselves determine the construction of this Lease. This Lease may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. Singular and plural terms, as well as terms stated in the masculine, feminine or neuter gender, shall be read to include the other(s) as the context requires to effectuate the full purposes of this Lease.

20. Communications Lessee will provide Lessor via email at [info@nwarlington.com](mailto:info@nwarlington.com) with quarterly reports as to overall activity on the leased premises. Lessor hereby acknowledges that the information provided to it by Lessee pursuant to the terms of this Paragraph 20 is for informational purposes only and Lessee cannot be held liable for any change in its anticipated operational activities or for the unintentional mis-statement of data that it is required to provide as a result of same. At Lessor's written request, Lessee will allow free access to books, records and drilling data accumulated pursuant to operations conducted on the leased premises for up to two (2) years prior to such a request provided it has the authority to do so. Lessor hereby agrees that such information is proprietary in nature, and Lessor hereby agrees and covenants not to disclose any such information to any entity or person not a party to this Lease. Lessor hereby agrees that violation of said covenant would work a competitive disadvantage to Lessee and cause Lessee to suffer damage.

21. Development Plan. The Drilling Program will have two (2) permitted wells in the first six (6) months, a total of seven (7) permitted wells within eighteen (18) months and a total of ten (10) permitted wells within twenty-four (24) months and includes a one hundred twenty (120) day delay to continuous development provision

Should Lessee be prevented from conducting drilling or reworking operations thereon or from producing any oil, gas or other minerals therefrom by reason of delay caused by governmental entity in the approval process of permitting, by reason of lease holdouts preventing the ability to obtain a clear drill path, or by operation of force majeure, and Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with any covenant of this Lease shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the lease premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

Notary Public, State of Texas





DALE RESOURCES LLC  
2100 ROSS AVE STE 1870 LB-9

DALLAS TX 75201

Submitter: DALE RESOURCES LLC

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SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
100 WEST WEATHERFORD  
FORT WORTH, TX 76196-0401

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By: \_\_\_\_\_



**D208247889**

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